Barka 2: Two for one

01/03/2007

The Barka 2-Al-Rusail transaction is the first power deal in Oman since the electricity and water sector was unbundled in May 2005, the first to combine the development of a greenfield IWPP with the acquisition and rehabilitation of an existing power plant, and, according to lead sponsor Suez, the most complex deal it has done in the Middle East to date.

A sponsor consortium of Suez-Tractebel S.A., Mubadala Development Corporation and National Trading Company won the tender for the project in June 2006. Despite not being a condition of the bidding, the sponsors – with an eye on ensuring the deal was bankable and getting to market quickly – instructed mandated lead arrangers HSBC and SMBC to commit to underwriting the deal.

The deal was complicated not, as is usually the case, because of bid compliance, but because the two projects had to be ring fenced and were structured and banked as a singular deal.

The project, which was awarded by Oman Power and Water Procurement Company (PWP), involves two elements: the purchase and rehabilitation of an existing 665MW power plant, Al-Rusial, from state-owned Electricity Holding Company – the first privatisation by way of a 100% share sale of a power asset awarded to a foreign investor in the Middle East and the first state-owned power plant to be privatised in the Sultanate of Oman. Secondly, the project incorporates the construction and operation of a 678MW power plant and a seawater desalination plant with a capacity of 120,000 m3/day. The seawater desalination plant is based on reverse osmosis proprietary technology to be supplied by a subsidiary of Suez, Degrémont.

The tender documentation put together by PWP with its advisers, ABN Amro and Berwin Leighton Paisner, explicitly stated that the two assets, Barka 2 and Al-Rusail, must not be cross-collateralized. This term was not up for negotiation.

To meet the regulator's requirements the purchased power plant and the greenfield IWPP are subject to separate financings so that they are ring-fenced from a security perspective, yet the deal nevertheless benefits from aspects of an umbrella financing from a cashflow perspective. A holding company will distribute cash for project A to project B only if project A has met its operating costs and serviced its debt.

Both financings benefit from the usual covenants and reserve accounts equal to the six-months debt service, with excess cash fed to the Hold Co. The Hold Co has a reserve account and may release shareholder dividends if an aggregate distribution test is met, that is the average DSCRs of both projects are beyond a specified threshold – this could feasibly be at an early stage after Barka 2 comes online. If a project triggers a DSCR event, the lenders to that project have security over the excess cash in the Hold Co. However if the banks enforce their security against an individual project the charge over the excess cash falls away.

For Barka 2, the financing comprises a $603.5 million 17.5-year term loan (2.5 year pre-completion) and for the Rusail plant, a 15-year $113 million portion. There is also a 3.5-year $70.6 million equity bridge. The term loans are priced at 75bp stepping up incrementally to 125bp.

Both projects benefit from the sale of the facilities' electricity and potable water production for 15 years by a power and water purchase agreement with PWPA, which is backed by guarantees provided by the Ministry of Finance of the Government of Oman. The offtake agreement matches the tenor on the Rusail debt, but the offtake ends two years prior to the end of Barka 2 debt at which stage the debt ratchets up to 165bp.

The deal draws close comparison with the Sohar IWPP. The $113 million Rusail portion of the debt is amortized as a balloon but if the project hits its base case this, like the Sohar financing, is paid off in its entirety. On the Barka 2 portion there is also a balloon but under the base case there is a residual amount that can be paid off or run as a two-year facility. This is the first time on a greenfield power project in the Middle East that banks are taking an element of merchant/recontracting risk.

Also in Sohar IWPP, Suez-Tractebel fronted the EPC but used the Korean Doosan as lead sub-contractor rather than the outright EPC because of a lack of project history and uncertain creditworthiness. Following its successful work on Sohar IPP, Doosan was awarded its first sole EPC projects in the Middle East on Taweelah A1 and Barka 2.

The lead arrangers HSBC and SMBC brought 14 other banks at syndication: KBC, Calyon, Natixis, BNP Paribas, Mashreq Bank, Arab Bank, GIB, Bank Muscat, National Bank of Abu Dhabi, KFW-Ipex, Bayern LB, West LB, Standard Chartered, Mizuho.

The rationale behind ring-fencing each asset is to preserve the generating capacity of Al-Rusail – a key aim of the Omani government is to increase capacity rather than threaten existing megawatts. Al-Rusail and Barka 2 are not located next to each other, so there are few, if any, physical advantages for bundling the assets for the sponsor, however the technique could be used again by Oman or other GCC states to ensure dilapidated assts get the investment they need either through the sponsor incentive of a greenfield project or an expansion of existing plant.

Barka 2 and Al-Rusail
Status: Underwritten 26 June 2006, acquisition of Al-Rusail Power Company signed 10 December 2007, syndicated 26 February 2007
Description: $787.1 million financing for acquisition and rehabilitation of Al-Rusail power plant and greenfield IWPP Barka 2
Sponsors: Suez-Tractebel, Mubadala Development Corporation, National Trading Company of Oman
Mandated lead arrangers: HSBC and SMBC
Arrangers: KBC, Calyon, Natixis, BNP Paribas, Mashreq Bank, Arab Bank, GIB, Bank Muscat, National Bank of Abu Dhabi, KFW-Ipex, Bayern LB, WestLB, Standard Chartered, Mizuho
Legal counsel to borrowers: Millbank Tweed
Legal counsel to lenders: Shearman & Sterling
Government financial adviser: ABN Amro
Government legal adviser: Berwin Leighton Paisner
Technical adviser: Black and Veatch
EPC: Doosan Heavy Industries